The internationalisation from a network perspective: A longitudinal study  

Richard Fletcher *

School of Marketing, University of Western Sydney, Locked Bag 1797 Penrith South DC NSW 1797, Australia

Received 27 March 2005; received in revised form 16 March 2007; accepted 22 September 2007
Available online 31 December 2007

Abstract

This article explores a range of internationalisation options in terms of their adequacy in explaining the patterns of internationalisation undertaken by contemporary organizations. It is argued that there is a life cycle in the internationalisation of firms and that existing explanations of internationalisation cater for some, but not all, elements in this life cycle. The paper then outlines a longitudinal study of the internationalisation of an Australian firm from its early tentative involvement via export in the 1960’s to its acquisition by an overseas firm in 2000. This study shows that network embeddedness appears to offer the most comprehensive explanation for the international life cycle of contemporary organizations.

© 2007 Elsevier Inc. All rights reserved.

Keywords: Internationalisation; Networks; Embeddedness

1. Introduction

The purpose of this paper is to demonstrate that current approaches to internationalisation do not fully explain the life cycle of firms’ internationalisation. This paper questions the more traditional approaches to internationalisation on the grounds that they are episodic rather than holistic and as such do not reflect the evolution of international involvement by firms. It argues that firms have a life cycle with respect to their international involvement — an involvement that embraces inward and linked (Fletcher, 2001; Welch & Luostarinen, 1988) as well as outward forms of internationalisation and caters for the fact that international involvement does not proceed on a continuously incremental basis and may involve periods of de-internationalisation as well (Welch & Benito, 1996). It is argued that the full spectrum of the life cycle of firms’ internationalisation can best be explained by a network embeddedness approach — specifically it is the networks of relationships in which the firm is embedded that have a significant impact on individual episodes of firms’ international involvement up to and including acquisition. This approach is illustrated by a longitudinal study of an Australian manufacturing firm from its first forays into international activity to its acquisition by a US based organization.

2. Approaches to internationalisation

Internationalisation is defined as ‘the process of increasing involvement in international operations’ (Welch & Luostarinen, 1988). This definition caters for all forms of international activity including advanced forms such as internationalisation by acquisition.

Vernon (1966) developed a concept that there is a life cycle to the internationalisation activities of the firm. This view argued that changes occur in the inputs for a product as it becomes established in a market and standardised in its production. As the cycle advances, comparative advantage in innovation is likely to be offset by a disadvantage in costs. Based on the behaviour of US exporters of manufactured goods, Vernon argued that the life cycle of the product in the international market had four stages:

- The US has an export monopoly.
- Foreign production of the item commences.
• The foreign produced good becomes competitive in export markets.
• The US becomes an importer of the product.

Although Vernon’s theory applied to industries in a country, the international activities of industries are a result of international involvement by firms and just as industries have a life cycle in their internationalisation so do the firms in that industry.

At issue is the adequacy of traditional approaches to internationalisation to explain the complex nature of internationalisation experienced by contemporary firms throughout the life cycle of their international involvement. Traditional models of internationalisation can be broadly categorised as stages approaches, learning approaches and contingency approaches.

Advocates of the stages approaches (e.g. Bilkey & Tesar, 1977; Cavusgil, 1980; Reid 1981), argue that internationalisation takes place in a series of stages, each of which involve an increasing commitment of resources. This argument is used to explain a sequential evolution, either from tentative steps towards export to full involvement in direct export (Reid, 1981) or from indirect export to direct export to establishing a sales office overseas to entering into a joint venture to fully owning an operation in the overseas country (Cavusgil, 1980). These approaches do not cater for the more advanced forms of internationalisation such as acquisition.

Related to the stages approaches in that they are also sequential, are the learning approaches (e.g. Johanson & Vahlne, 1977; Johanson & Weidersheim-Paul, 1975), which argue that companies begin their operations in nearby markets and as they gain experience, they move to more distant and less familiar markets. This ‘psychic distance’ approach is more focussed on the location of the international activity to a greater extent than on the form this activity takes.

Contingency approaches (e.g. O’Farrell & Wood, 1994; Reid, 1984; Tumbull, 1987), view internationalisation as a response to circumstances and opportunities rather than the result of a predetermined strategy or a sequential exploration of markets in terms of perceived difficulty. They argue that it is the situation in the market and the needs of the firm that determine which markets to enter and the mode of entry. This approach has been mostly used to explain internationalisation up to but not beyond the manufacturing stage.

The above models, whilst they might apply in some specific cases, do not adequately explain the reality of internationalisation in today’s global environment for many firms. This is because for the most part they focus on how firms should behave rather than on how firms actually behave. Internationalisation is not always an evenly paced process in each overseas market and is often an activity that is both turbulent (circumstances in one market may influence activity in others) and unpredictable with forms and locations of international involvement often occurring by chance.

The reality of internationalisation is that it is not only outward driven but it is also inward driven and linked (Fletcher, 2001; Karlsen, Silseth, Benito, & Welch, 2003; Welch & Luostarinen, 1988). In today’s world, outward driven internationalisation does not stop at the joint venture or owning a plant in another country. It also for example involves licensing and franchising. Firms can also internationalise by inward driven activities such as indirect importing, direct importing, establishing a buying office overseas, becoming a franchisee or licensee or establishing a plant in an overseas country to supply the domestic market.

Internationalisation is increasingly becoming a matter of outward activities leading to inward activities (or vice versa) as happens when the licensee of a US firm in Australia becomes the licensor for the same product in New Zealand. Furthermore, much internationalisation today is the result of the international activity itself involving a linking of both outward and inward activities and happens with many strategic alliances, with countertrade, with cooperative manufacture and with international projects. International activities often do not proceed in a continuously incremental path and there can be periods of de-internationalisation in which firms withdraw from some markets, downsize operations in others so as to strengthen their position for future international involvement (Welch & Benito, 1996). Whilst this approach views internationalisation in a broader and more interactive way, it does not cater for internationalisation by acquisition.

Other recent approaches to internationalisation include the ‘born global’ approach and ‘transfer of knowledge’ approach. The ‘born global’ approach, whilst an explanation of internationalisation by a number of firms especially those in the high tech area, is not an explanation for firms who did not start out almost from inception with an aspiration for international involvement as is the case with many manufacturing firms (Knight & Cavusgil, 1996; Oviatt & McDougall, 1994). The knowledge approach on the other hand attributes successful international involvement to both individual and organizational learning and the internalising of the information into tacit knowledge and experiential knowledge (Tho, Barrett, & Fletcher, 2001; Welch & Welch, 1996). Again whilst the transfer of knowledge may explain some episodes of international involvement, it may not explain all aspects or influences such as the unsolicited export order. Furthermore, it may be more relevant to some forms of international involvement such as franchising or licensing than it is to others such as indirect exporting. Neither the ‘born global’ approach nor the knowledge approach cater for internationalisation via acquisition.

Whilst this does not mean that these approaches are wrong as they may still apply to some firms, or to episodes of internationalisation by other firms, they are less applicable in an increasing number of situations where national borders are becoming less relevant in the contemporary global environment — an environment that includes the formation of regional trade groupings involving alliances by firms that cross national boundaries and the impact of the information revolution in stimulating globalisation.

What is needed is an approach that caters for all aspects of internationalisation during the life of firms’ international involvement. Furthermore, according to Matthysens and Pauwels (2001), a dynamic theory of international involvement by the firm requires a longitudinal investigation.

3. Internationalisation from a network embeddedness perspective

The basic network approach applied in this paper is based on the concept that a network consists of actors who are in focal
relationships and/or subsidiary relationships and that these networks of relationships can be mapped. It is possible by mapping to show that non-participants in the focal relationship may be linked to one of the parties in the focal relationship and/or to actors in other subsidiary relationships. These relationships in the network involving actors in subsidiary relationships can impact on the focal relationship specifically and on the total network in general. These subsidiary relationships can bring about a change to both the parties to the focal relationship and to the nature of the focal relationship. It is through these linkages that parties in one network become involved in another and one network becomes linked to another.

When applied to internationalisation, it is possible that the network approach as championed by the Industrial Marketing and Purchase Group (IMP) could provide a more comprehensive explanation of internationalisation over the life of the firm than do the other models such as those discussed earlier. This is due to its holistic approach and focus on interaction. This is because the focus of the network perspective is on the market and firms’ relationship to that market, the existence of linkages between firms, on co-operation as well as competition as a driving force, on the exchange of information between parties, and on the importance of atmosphere in which the transaction takes place. Networks have both intended components for the firm such as the appointment of agents or the formation of strategic alliances and unintended components such as the firm being acquired due to the network being unbounded (Welch & Welch, 1996). As a consequence, the network approach is more likely to be able to cater for an international environment that is global, interdependent and connected.

There have been previous conceptual and empirical studies into the application of the network approach to internationalisation. Johanson and Mattsson (1984) proposed a classification of extension (initial forms of entry — to cater for firms new to an overseas market); penetration (forms involving increasing commitment of resources — to expand business within an overseas market) and integration (to coordinate activities between various overseas markets in which the firm was involved).

Johanson and Mattsson (1988) further expanded on the concept of integration and developed a matrix that compared the integration of the firm with the integration of the market. This led to a classification of firms in terms of their type of internationalisation as early starters, late starters, lonely internationals and internationals amongst others.

Other research has been based on mapping networks of relationships in international activities. Fletcher (1996) studied three international countertrade transactions and mapped the networks involved both at the time of initial negotiation and then some 10 years later. These snapshots of the network at different points in time isolated the elements of change in the internationalisation of the parties involved.

However, these approaches to networks as an explanation of internationalisation tend to highlight the changes rather than the underlying drivers of change. To isolate the drivers of change in internationalisation, a deeper understanding of the networks in which the parties are embedded is necessary (Tornroos, 1997).

It is proposed that the network embeddedness approach is better placed to accommodate the international life cycle of the firm. This is because in order to understand how international networks evolve and function, it is desirable to gain an understanding of the setting in which the networks are embedded. Halinen and Tornroos (1998) argue that firms are embedded in wider business networks that extend beyond the boundaries of the individual firm and that these networks are distinguished by both connected exchange relationships among business units and the position the firm occupies in relation to other actors in the network. They illustrate this approach by dyad network embeddedness and micronet–macronet embeddedness as shown in Fig. 1.

These approaches firstly show the focal dyad as part of a wider network and secondly a focal triad as part of a wider network. As illustrated in Fig. 2 (Tornroos, 1997), these wider networks include social networks, regional networks, technological networks, institutional networks, infrastructural networks and market networks.

Underlying these are three dimensions (Halinen & Tornroos, 1998). The first of these is a temporal dimension reflecting that relationships and the networks in which they are embedded have histories and although operating in the present have aspirations for the future; the second is a spatial dimension reflecting that business activities are embedded in regions, countries or groups of countries; and the third is a representational dimension reflecting the fact that business actors represent their country, industry and/or firm in the eyes of other members of the network.

From the network embeddedness perspective, a firm that is embedded in a web of relationships has the option of using this web of relationships to strengthen and develop current relationships, to look for new business partners or to dissolve existing business relationships (Tornroos, 2004). The network embeddedness approach looks beyond the single buyer—seller dyad to overall business relationships as connected dyads between actors embedded in webs of relationships. These actors interact with each other and have a degree of dependency on each other. These relationships can be active, sleeping, potential or emerging (Tahtinen & Halinen, 2002) and can be influenced by antecedent events, current events and anticipated events (Hedaa & Tornroos, 2002). Tornroos (2004) illustrates the relevance of this to the life cycle of the firm by showing that the ending of business relationships in industrial markets can be seen as outcome of temporally specific events in time and space affected by both preceding events and anticipated future events in a specific situational context.

4. Research methodology

Given the nature of the problem being investigated, the case study method was employed. This methodology was considered suitable as the research related to a complex series of events that took a long time to unfold (Yin, 2003). As Eisenhardt (2002) demonstrates, it is possible to induct theory using case studies and many of the features of the process such as problem definition and construct validation are similar to the hypothesis testing type of research. Other features such as within case
analysis and replicating research are unique to the case method. Yin (2003) argues that case studies are especially useful in answering the ‘how’ and ‘why’ questions that research seeks to answer, and that case study research, if properly conducted, follows the normal research methodology of defining the problem, designing the form the research will take, collecting the data, analysing the data and reporting the findings.

The firm selected for the case study was James N. Kirby Pty Ltd. A longitudinal study was undertaken as it was considered that the process of international involvement consists of a series of foreign market commitments that advance or retard firms’ specific international activities. As Harrison and Easton (1998) comment “any single case study can be regarded as a set of case studies at different time periods”. This is appropriate to the episodes in the internationalisation of James N. Kirby. There is precedent in the internationalisation literature for the undertaking of a single longitudinal case study as evidenced with the study of Volvo (Kinch, 2002).

The data was gathered by interviewing key personnel involved in the internationalisation of the firm at various stages over a six year period in Australia, Thailand, Singapore and the USA. The persons interviewed varied from occasion to occasion depending on the aspect of the firm’s internationalisation being investigated and on who were the relevant decision makers at a particular point in time. Multiple sources of evidence were used — the principle source of information being interviews. These were supplemented with documents and direct observation of office and factory premises. The interview data was triangulated using secondary data gathered from a variety of sources including company records, newsletters, press reports, catalogues and annual reports.

As far as the acquisition phase was concerned, interviews were held with executives of both the firm that was taken over (the CEO of James N. Kirby on 23/3/2000 and the Managing Director of Kirby Engineering on 10/5/2000) and with executives of the US take-over firm (Managing Director of Lennox Global Ltd, Australia on 10/4/2000 and Managing Director of Lennox Asia-

Fig. 1. Two perspectives on network embeddedness.

Fig. 2. Different types of networks coupled to business activities.
Pacific, Singapore on 29/5/2000). A year later, to review how the acquisition had ‘settled down’, interviews were held with executives of Lennox Global Ltd, Australia on 15/2/2001, and with the CEO of James N. Kirby on 10/4/2001). There was internal consistency between all of these interviews as far as opinions expressed relating to motives underlying the acquisition. Data was also collected from secondary sources, including company records (Annual Reports and Prospectus) and a strategic plan for Kirby Engineering. In addition, these sources were supplemented by direct observation of office and factory premises in Australia, the USA and Singapore.

5. Case description

James N. Kirby was selected because it responded to internationalisation surveys in 1983 and 1993, which provided background on its international involvement over a period of 20 years prior to the current research. In addition, the firm was personally known to one of the authors due to his involvement with their international activities in Thailand over a three year period in the mid 1980’s.

By way of background, James N. Kirby was a highly successful manufacturing firm established over 80 years ago. It was a medium sized family owned company that at the time if its initial forays into international markets was producing automotive air conditioning equipment and components for domestic and industrial refrigeration. Its international activities in the refrigeration sector began as simple export, then it became the Australian licensee for a US manufacturer, then operated as a joint venture partner. The internationalisation further evolved with the firm licensing its technology to overseas firms, and then using operations overseas to supply the Australian market. In the process, the firm became expert in producing capital plant to initially manufacture air conditioning and refrigeration components and then in producing plant to manufacture a wider range of automotive components. As a consequence, it became a significant exporter of customised automotive and refrigeration capital plant. The final stage in the firm’s internationalisation was its acquisition by a US manufacturer as part of that organization’s newly developed internationalisation strategy.

The firm was studied for six years from 1996 to 2001 and interviews were held with executives each year in Australia and as required, in Thailand, China, Singapore and the USA. The supply of archival data effectively enabled an exploration of the firm’s international activities over a 40 year period. Both the refrigeration and engineering divisions were studied.

6. Case history

During and prior to the 1960’s, James N. Kirby exported Australian developed refrigeration compressors to South East Asia. At the same time, a US competitor (Tecumseh) exported its compressors to the Simakulthorn Company in Thailand. In the 1970’s Kirby became the Australian licensee for Tecumseh and began exporting these compressors to refrigeration manufacturers and components parts suppliers in Thailand including Simakulthorn.

Then in the early 1980’s James N. Kirby formed a joint venture in Thailand to manufacture compressors for supply to not only Simakulthorn but also to Thai refrigeration manufacturers and to other markets in South East Asia. In the early 1990’s the Thai joint venture exported compressors to James N. Kirby in Australia who ceased to manufacture them. The joint venture also began exporting compressor kits to the original licensee — Tecumseh of the USA.

In the late 1990’s, James N. Kirby was acquired by the Lennox Group of the USA as part of that firm’s internationalisation strategy. Lennox had little international involvement before 1995 and their consequent international involvement in the refrigeration/air conditioning sectors and in engineering activities was at the time of the acquisition, more focussed on Europe and South America.

7. The fit of the case with approaches to internationalisation

If the network integration approach of Johanson & Mattsson, 1988, is applied to JNK, it explains the evolution of the form of the firm’s internationalisation up to the early 1990’s in the case of its involvement in Thailand (Fig. 3).

If the network mapping approach is applied of mapping the focal and subsidiary relationships in networks, it is possible to appreciate in more detail the interactions involved in the internationalisation of the company. This approach is applied to James N. Kirby up to the point of its acquisition in the year 2000 and illustrated in Figs. 4, 5, 6, 7, 8 inclusive. If we compare the network map in the 1970’s, with the network map for the 1980’s, with the network map for the 1990’s, it is possible to contrast changes in the internationalisation of JNK on the basis of snapshots of networks at three point in time.

However, whilst these maps show more advanced forms of internationalisation such as manufacture overseas to supply the Australian market and also equity arrangements between the Thai joint venture and customers in Asia for refrigeration components, they do not provide any clue as to why the firm was acquired by Lennox. The possibility that embeddedness can be used to explain advanced forms of internationalisation is
supported by Mattsson (2000) who argues that internationalisation involving mergers and acquisitions is influenced by the networks in which firms are embedded.

If we apply the network embeddedness approach we are better able to explain the above in the context of the total evolution of the internationalisation of James N. Kirby. Initial activities in the internationalisation of this firm were discussed from a network embeddedness perspective in a paper by Fletcher & Barrett, 2001, and that paper showed that the network embeddedness approach provides a convincing explanation of

Fig. 4. Network map of JNK in 1970’s.

Fig. 5. Network map of JNK in 1980’s.
James N. Kirby’s internationalisation up to the stage where the overseas joint venture supplied the home market. This paper explained the arrangements arrived at in the 1990’s whereby the Thai joint venture replaced James N. Kirby and Tecumseh as producers of compressors for the Australian and US markets respectively. In this case the actors in the wider network in which both companies were embedded had social bonds as the directors of Kirby, of the US Licensee and of the Thai joint venture partner Simakulthorn, all had close social relationships. There were also technological bonds as JNK supplied expertise to Simakulthorn and Tecumseh supplied technical input to JNK. Market relationships were present in that JNK was an equity partner with Simakulthorn in the joint venture, the Japanese customers also acquired equity in the joint venture and with James N. Kirby’s assistance Simakulthorn expanded vertically into manufacturing additional refrigeration components. The wider network also reflected infrastructural networks as the Japanese refrigeration manufacturers changed from competing by manufacturing compressors to collaborating by co-operative manufacture with the joint venture. Also, the joint venture produced an increasing percentage of components in Thailand as opposed to importing on account of the lower labour costs. The arrangements were embedded in wider regional networks due to the proximity of Australia to Thailand and of Thailand to Asian markets. There was embeddedness also at the institutional level as exemplified in the linkages of both James N. Kirby and Simakulthorn to Australian and Thai industry bodies, of Simakulthorn to the

---

**Fig. 6. Network map of JNK in 1990’s.**

---

**Fig. 7. Lennox international involvement prior to acquiring JNK in 1999.**

---

**Fig. 8. JNK’s international involvement prior to being acquired by Lennox in 1999.**
Thai Democrat party and of the directors of James N. Kirby to the Australian Government.

This paper extends this application of the network embeddedness approach to show it can further explain the internationalisation of this firm to cover the whole period from the beginning of its international activity until its acquisition by a US organization. It does this by considering the role of network embeddedness in the activities of both James N. Kirby and the firm that acquired it, Lennox of the USA.

8. Acquisition and internationalisation

In 1999, both Lennox and James N. Kirby were endeavouring to increase their involvement in Asia. The former, as part of its change in strategy from domestic to global, and the latter, as part of a strategy to increase its existing involvement in the region. The awareness by each party of the other increased when both firms endeavoured to buy out the same firm in Thailand (a manufacturer of heat transfer parts and refrigeration coils). Rather than continue to bid against each other and drive up the price, the two firms decided to buy the plant jointly. This led to Lennox, forming a joint venture for this purpose with James N. Kirby.

At this time, James N. Kirby, a family-owned firm for three generations, was having ‘family succession’ problems. The two brothers who ran the firm (Kevin and Raymond Kirby) were reaching retirement age, and there was uncertainty as to the ability and interest of the next generation of family members in taking over the firm. When Lennox made an offer to buy out James N. Kirby, it was accepted. This development caused Lennox to change their internationalisation strategy for the region, which was Asia first and Australia second, to one where involvement in Australia preceded that in Asia.

In this context, James N. Kirby was attractive to them as the Australian firm had considerable international experience (more so than Lennox). This was particularly in Asia but also in Europe through their Engineering Division. Furthermore, James N. Kirby had considerable international experience in the refrigeration and air-conditioning sector, which, up to that time, had been the core business of Lennox.

The fastest growing division of James N. Kirby was their Engineering Division, which, through the firm’s supply of compressors for automobile air-conditioning, was strongly focussed on the automotive sector. Lenox viewed expansion into the automotive engineering sector as a logical extension of their current focus on automotive air-conditioning. There were also advantages to linking the two firms from a manufacturing perspective. James N. Kirby would bring to the arrangement manufacturing capability in the Asia-Pacific region which would enable Lennox to have an immediate production base from which to tap the Asian market.

A further analysis of the reasons and background to the acquisition reveal a better fit between the two organisations than may be apparent at first sight. James N. Kirby Engineering was a competitor in the USA with Livernois Inc. Livernois operated in the engineering sector of the automotive industry, and had been recently acquired by Lennox as part of the latter’s expansion from refrigeration into the automotive sector. In addition, Livernois had, prior to the acquisition, supplied the Lennox Heatcraft division. The acquisition of James N. Kirby would yield synergies from combining the distribution networks of Livernois and James N. Kirby Engineering in the USA.

In Australia, the major competitor of James N. Kirby in the refrigeration and air-conditioning wholesaling/distribution sectors was Lovelock Pty Ltd. This firm had recently been acquired by Lennox International Inc. Again, not only would the acquisition of James N. Kirby yield dominance of the Australian market, but also synergies due to combining the distribution networks of both Lovelock Pty. Ltd. and James N. Kirby (now known as the Wholesale Group of Heatcraft). Initially, it was intended that operations would be established in Asian countries to assemble product from components supplied by Heatcraft Australia. In the future, this relationship would change and, in view of their experience in establishing compressor plants in Asia, Heatcraft would become responsible for setting up full production plants in a number of Asian locations. In addition, the Australian operation would become the regional headquarters for supply of manufacturing plant, technology and R & D. The marketing of the output of these plants would not be undertaken by the Australian operation but by a new office established in Singapore, Lennox Global Asia-Pacific. This office would also take over control of all exports from Heatcraft Australia, other than those of Kirby Engineering and those destined for New Zealand.

As far as automotive operations were concerned, Lennox International Inc made Kirby Engineering Division responsible for Lennox’s future expansion in this sector in the USA, and planned to acquire new manufacturing facilities in that country for the Lennox group. The major focus of Kirby Engineering under these arrangements would be the USA market, with less attention being paid to the European and Asian markets. Lennox, with the acquisition of James N. Kirby Engineering, now had access to metal cutting and metal forming expertise, as well as access to new networks in the automotive sector in Europe, which the Livernois acquisition did not provide.

The embeddedness framework developed by Tornroos (1997) is applied to the circumstances surrounding the acquisition of James N. Kirby Ltd. The international business network of James N. Kirby, now known as Heatcraft Australia Pty. Ltd., was considered in terms of its coupling to infrastructural, social, market, regional, technological and institutional networks.

8.1. Infrastructural networks

The Kirby family had run the firm for three generations and there were many long serving employees (including the Managing Director and General Manager — Engineering) who had been with the firm for more than 40 years. However, when problems of family succession surfaced in 1999, the favourable take over bid of Lennox was accepted. The acquisition created synergies between the distribution arrangements in Australia of two previously competing firms — Kirby Refrigeration and Lovelock. It also led to a rationalisation of manufacturing activities between these two producers of similar ranges of refrigeration equipment.
8.2. Social networks

Granovetter (1973) argues that whereas strong ties between individuals and groups stabilize relations in social networks, weak ties between those involved stimulate change as competitors find it easier to enter established networks. In the case of James N. Kirby, strong ties operated between the firm and its employees and between managers in the firm and those firms it was involved with in other countries. Underlying the social networks was a commonality of values between the Kirby family in Australia, the Herrick family of Tecumseh in the USA and the Simakulthorn family in Thailand. Strong ties of this kind led to trust between the actors in the various networks. Both James N. Kirby and Lennox (the acquiring firm) were family owned companies that operated on the basis of trust as far as inter-firm relationships were concerned. This similarity in corporate culture facilitated the attractiveness of the proposed arrangement and increased its appeal to both parties. Each of the firms in the social network involving James N. Kirby, was viewed as having broad social links in the country of operation and each brought to the relationship the assets of knowledge, information and experience which influenced the attractiveness of James N. Kirby to Lennox.

8.3. Market networks

Participation by James N. Kirby in a variety of international trade shows, Australian Government Trade Missions, and other customer creation and retention activities, resulted in the firm having an established presence in a number of market related networks in various countries. These together with the market related assets of James N. Kirby were attractive to Lennox, especially the market networks the firm had in Thailand, China, other parts of South-East Asia and to a lesser extent India and Korea. Another market related asset was the proven ability of James N. Kirby to build and operate plants in Asia. Within Australia, both James N. Kirby and Lennox were already embedded into the refrigeration network due to the Lennox purchase of Lovelock from Email in 1998. The acquisition gave Lennox access to low labour cost compressors from Thailand that they could distribute via their established networks in other countries and in the process supplement the range of products they offer in the US and other markets. The Lennox purchase of Livernois at the beginning of 1999 also created a market network that yielded synergy with the acquisition of James N. Kirby due to the automotive division of the latter. This was because Livernois made radiators for the automotive industry and was Lenox’s first venture into this sector. There was a pre-existing network between Tecumseh and Lennox in the US with the former being a major supplier of certain refrigeration components to the latter. This relationship would have created knowledge of the James N. Kirby operations in Asia amongst Lennox personnel.

8.4. Regional networks

James N. Kirby had regional networks in Australia, Asia (both China and Thailand) as well as in the USA as far as refrigeration was concerned and in Europe, Asia (Japan and Korea) and in the USA for automotive machinery. As such, acquisition of the firm would provide the purchasers with an established position in all major trade groupings in the world as well as a major presence in the Australia/New-Zealand market. This was attractive to a purchaser wishing to globalize at a time when manufacturers and suppliers were endeavouring to integrate their activities and resources across national boundaries leading to partnerships in the automotive industry such as that between Daimler–Benz and Chrysler. Up to the time of the acquisition, Lennox had been manufacturing refrigeration and air-conditioning products in Europe (France and Czech Republic), in South America (Brazil) as well as in the US. The acquisition of the Australian firm enabled Lennox not only to enter the Asian and Australian markets but also to ‘Asianise’ companies within the Lennox Group. As far as the automotive sector was concerned, the acquisition of James N. Kirby enabled Livernois to expand their focus beyond the US to Europe.

8.5. Technological networks

In the Australian market, James N. Kirby had been forced because of the small size of the market, to adopt ‘lean manufacturing’. This meant that the Kirby Engineering system of creating a single machine tool capable of machining multiple configurations of the same part for different models was leading edge as far as new manufacturing technologies were concerned, especially those focussing on customization as opposed to standardization. Such technology was ideal for a firm planning to enter the automotive industry. Specific areas where Kirby Engineering operated at the leading edge involved the machining of aluminium as opposed to steel parts, the incorporation of CNC digital controls combined with linear motors, faster chip removal rates and the use of diamond cutting tools. The acquisition enabled Lennox to use James N. Kirby in Australia as their R & D centre for the region. The transferred technology from US and Europe to the Australian operation, to have it tailored for use in the region and then subsequently shipped it to operations in Asia.

8.6. Institutional networks

James N. Kirby exploited these very effectively especially at the government level. They involved using the trade relations activities of the Australian Government to have their problems addressed by the Thai government, the winning of government sponsored ‘Export Awards’, and frequent receipt of both export incentives and Research and Development Grants. Both Kirby and Simakulthorn belonged to groups fostering trade between Australia and Thailand and both were well connected to their respective governments. Furthermore, the above together with involvement in industry associations, resulted in the acquisition of valuable networks by Lennox in both Australia and the Asia-Pacific region.

If we consider the wider geographical networks in which the acquiring firm (Lennox) was embedded prior to the acquisition, we find that the firm had had little international involvement prior to 1995.
In that year, it established Lennox Global to pursue global opportunities in heating and refrigeration. Subsequently, manufacturing facilities were established in European markets and sales and distribution arrangements were made for the Asia-Pacific region. Its first involvement in the engineering sector was the acquisition of a US machine tool manufacturer.

As far as the underlying dimensions referred to by Halinen and Tornroos (1998), an examination of the wider, geographical networks in which the acquired firm (James N. Kirby) was embedded, shows that their refrigeration division had a variety of types of experience in international involvement including exporting, importing, manufacture under licence, being a licensee and in joint ventures. They were strong in the refrigeration sectors in Australia, New Zealand and Asia. The engineering division which was a leader in machine tool technology had a presence in both the US and European automotive sectors and in the refrigeration sector in both China and Thailand. The firm was expanding into other Asian markets.

An examination of the complementarities between the wider geographical networks of both the acquiring and the acquired firms makes it easier to understand why the acquisition occurred. This is illustrated in Fig. 9. As far as infrastructure is concerned, there were distribution synergies between the two firms as the distribution networks of James N. Kirby in refrigeration were well established in Australasia and Asia whereas those of Lennox were strong in Europe and the Americas. In addition, following the acquisition by Lennox of Lovelock Australia, (a competitor of James N. Kirby), the acquisition provided scope for rationalising of manufacturing activities.

Further exploration of the acquisition in terms of network embeddedness highlights the role of the regions in which each party was involved. Already involved in the Americas and Europe, the acquisition provided Lennox with a presence in all major regional trade groupings (EU; NAFTA and ASEAN) as it delivered a strong position for the new organization in Asia and strengthened its position in the engineering sector in both Europe and the US. Technology played a part as Kirby Engineering had expertise in ‘lean’ manufacturing, and in machining aluminium — expertise that Lennox did not possess. Kirby Engineering was also involved in network in Australia in the engineering research area that made its operation in Australia ideal as a research and development centre, especially for the Asian market. As a result of the acquisition, the new organization has a much wider geographical presence in both the refrigeration and engineering sectors.

9. Conclusions and managerial implications

From an international life cycle perspective, as far as the firm being acquired, the acquisition changed rather than eliminated its international involvement. The Australian operation ceased to be involved in direct exporting other than to New Zealand and it is was no longer responsible for liaison with Kulthorn Kirby in Thailand. Regional international activities were transferred to the Lennox office in Singapore. The engineering division ceased to be directly involved in marketing automotive and refrigeration plant in the US, Europe and China and acted as a support group for the area sales division of Lennox. Whilst the international activities of the acquired firm were subordinated to the overall internationalisation program of the acquiring firm, they continued in a different form. Whereas, formerly, the Australian operation’s international involvement took the form of exporting and establishing joint ventures, now its focus is on providing technical support, R & D and turnkey manufacturing plants to

Fig. 9. Structure of the new organization and its international linkages in 2001.
overseas operations of the Lennox Group. As far as the acquiring firm was concerned, the acquisition extended the international involvement of Lennox, both by region (i.e. into Australia/New Zealand and Asia) and by product (i.e. engineering capital equipment). It enabled Lennox to increase its overall dependency on international business. It also enabled Lennox to rationalise its existing international activities in the process of integrating the pre-existing international activities of James N. Kirby.

The network embeddedness in this case explains how the various networks in which both James N. Kirby and Lennox were embedded evolved over time. It takes into account the wider networks that extended beyond the boundaries of both firms. It explains the acquisition in terms of the infrastructural networks, the social networks, the market networks, the regional networks, the technological networks and the institutional networks of both companies. It was found that although there was little direct connection between the two companies prior to the offer of acquisition, there were linkages when the wider networks in which both firms were embedded are taken into account. The case also showed that the underlying factors of network embeddedness articulated by Halinen and Tornroos (1998) were present in that the networks in which both firms were embedded had histories and although operating in the present, had aspirations for the future and these influenced the unanticipated acquisition. The case reflected the underlying spatial dimension in that aspirations to expand beyond the regions in which the firms were embedded influenced the acquisition. The final underlying dimension was the representational dimension and the case demonstrates that knowledge of each firm by other parties in the wider networks influenced the acquisition and its potential to solve problems faced by both James N. Kirby and Lennox.

Previous research by Fletcher and Barrett (2001) showed that network embeddedness provides a comprehensive explanation for the internationalisation of James N. Kirby up to offshore manufacture to supply the domestic market. This paper shows that network embeddedness provides a cogent explanation for the next aspect of the firm’s internationalisation, viz its acquisition. Therefore from this longitudinal study it would seem that network embeddedness helps explain all phases of the internationalisation of James N. Kirby. It shows how the origins of its acquisition by Lennox International can be found in the pre-existing networks. It also provides a comprehensive rationale for the more advanced forms of internationalisation in which the firm became involved. Network embeddedness creates the conditions for internationalisation as the bonds between parties embedded in different networks enable the international divide to be bridged due to the bonds causing the networks to overlap. Such networks can contain within them potential partners for international activities, likely competitors in overseas markets, firms that might be acquired and firms that might make a tale over offer.

The case also illustrates that internationalisation is evolutionary and like many other activities, internationalisation often has a life cycle. However, what to some may appear to be the ‘end of the road’ as far as their internationalisation, to others is a new beginning in which earlier relationships and networks can be leveraged to create new international activities or forms of international involvement. Finally the case illustrates that a critical ingredient in internationalisation is the ability to be able to develop and exploit relationships. A study of the evolution of the relationships between actors in the network over time — how they are formed, maintained and broken — provides decision makers with different perspectives on the process of internationalisation of the firm.

The managerial implications of adopting an embeddedness approach to internationalisation lie in its focus on analysing the networks in which ones current and potential stakeholders are embedded. It is these networks that can contain both potential allies and competitors. In these networks will also be found those parties that can help the firm secure ‘insider’ status in overseas markets. This is an issue that is becoming increasingly important in an era of expanded regional trade groupings. The network embeddedness approach to internationalisation requires that the social, technological, infrastructural, institutional, market and technological factors in the wider international network be taken into account by managers. The case under review alerts managers that firms are likely to engage in different forms as well as different stages of international activity.

The case illustrates the benefit of managers looking beyond the single buyer–seller dyad to viewing the overall business relationship on a holistic basis — specifically as a series of connected dyads between actors embedded in webs of relationships. These actors both interact with each other and have a degree of dependency on each other. It also shows there is benefit in managers mapping the networks in which the firm is embedded on a regular basis as a means of assessing threats and opportunities in their international marketing activities. In summary, it is desirable that firms should undertake a detailed analysis of the international networks in which they are embedded so as to spot the strengths that might assist their internationalisation and isolate the weaknesses they may need to overcome by developing new relationships. This will better equip firms to take advantage of opportunities in the international marketplace and be fully aware of the threats they are likely to face in both the short and longer term.

References


Richard Fletcher is Professor of Marketing at the University of Western Sydney (UWS). Prior to joining UWS in 2003, he was Associate Professor of Marketing at the University of Technology, Sydney. His research interests are predominantly in the field of international marketing and he has published in the European Journal of Marketing, International business review, Industrial marketing Management, Journal of Global Marketing and the Australasian Journal of Marketing. Before becoming an academic in 1989, he spent 25 years as an Australian Trade Commissioner representing Australia’s commercial interests in New Delhi, Bombay, San Francisco, Jakarta, Teheran, Libya, Los Angeles and Bangkok.